

Message Text

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TO AMCONSUL MONTREAL

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TAGS: AORG, AFIN, ICAO

SUBJECT: US/DANISH AND US/ICELANDIC EXCHANGE RATES FOR
ICAO JOINT FINANCING PAYMENTS

REF: (A) ICAO JS-WP/986, OCTOBER 25; (A) MONTREAL 1642

1. PARA 10 OF REF A, CONTAINING COMMENTS OF SECRETARY OF
JOINT SUPPORT COMMITTEE, NOTES THAT DENMARK AND ICELAND
WILL CONSULT, INTER ALIA, ON JANUARY 1 AND JULY 1 OF EACH
YEAR WITH US AND UK TO REACH AGREEMENT ON APPROPRIATE RATES
OF EXCHANGE EXISTING ON THOSE DATES. WORKING PAPER STATES
THAT AGREED RATES, WHICH WILL BE USED FOR CONTRACTING
GOVERNMENTS' JANUARY 1 AND JULY 1 PAYMENTS OF ASSESSMENTS
IN DOLLARS OR POUNDS UNDER JOINT FINANCING ARRANGEMENTS,
WILL BE BASED ON MIDDLE MARKET BANK RATES. REF B AGAIN
REFERS TO USE OF MIDDLE MARKET BANK RATE IN NEGOTIATIONS
BETWEEN US AND DENMARK.

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2. US ICAO REP SHOULD POINT OUT TO SECRETARY OF COMMITTEE THAT, IN NEGOTIATING EXCHANGE RATES WITH DENMARK AND ICELAND, US WILL INSIST ON A RATE AT LEAST AS FAVORABLE AS US PREVAILING RATE, I.E., THE MOST FAVORABLE LEGAL RATE AT WHICH THE USG CAN BUY DANISH AND ICELANDIC KRONER FOR DOLLAR INSTRUMENTS ON JANUARY AND JULY 1. AS PRAVAILING

RATE IS A BUYING RATE, IT IS BY DEFINITION MORE FAVORABLE TO USG THAN MIDDLE MARKET RATE, WHICH IS HALF WAY BETWEEN BUYING AND SELLING RATE; WE WOULD THEREFORE BE UNABLE TO NEGOTIATE ON BASIS OF MIDDLE MARKET RATES UNLESS THESE RATES UNEXPECTEDLY MORE FAVORABLE THAN THE PREVAILING RATES AVAILABLE TO THE USG. WE BELIEVE THAT THE GOD AND GOI SHOULD NOT EXPECT TO RECEIVE A DOLLAR EQUIVALENT GREATER THAN WHAT WOULD BE REQUIRED TO PURCHASE THE LOCAL CURRENCY AMOUNT OF THE ASSESSMENTS.

3. HISTORY OF SEMI-ANNUAL US-ICELANDIC EXCHANGE RATE AGREEMENTS IS AN UNUSUAL ONE AND MAY BE CAUSING CONFUSION ON THIS QUESTION. ICELAND HAS BEEN PROPOSING RATE WHICH IT DESCRIBES AS MIDDLE MARKET RATE, BUT WHICH IN FACT IS MORE FAVORABLE TO THE USG THAN US PREVAILING RATE AND WHICH THEREFORE WE HAVE ACCEPTED. AS AN EXAMPLE, ICELAND PROPOSED 184.10 KRONER PER US DOLLAR FOR JULY 1 USG PAYMENT. US PREVAILING RATE ON JUNE 30 WAS 183.90, SO WE ACCEPTED PROPOSAL WITHOUT FURTHER QUESTION SINCE HIGHER RATE BENEFITS US. KISSINGER

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